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AMEMBASSY ANKARA

AMEMBASSY CAIRO

AMEMBASSY KUWAIT

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TEL AVIV FOR AGATT

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SUBJECT: GOCYPRUS PURSUES ARAB TRADE AND TECHNICAL COOPERATION

REF: NICOSIA 143

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SUMMARY: GOCYPRUS CONCLUDES AGRICULTURAL COOPERATION AGREEMENT WITH LIBYA. CYPRUS COMMERCE MINISTER LEAVES FOR TRIPOLI AND CAIRO. PRIVATE SECTOR LAUNCHES INITIATIVES AIMED AT DEVELOPING EXPORT MARKETS, SOURCES OF FINANCE AND JOINT VENTURES IN AND WITH ARAB WORLD. CONCERTED GOCYPRUS EFFORT TO MOLD CLOSER, PRAGMATIC RELATIONSHIP WITH SELECTED ARAB STATES SEEMS TO BE UNDERWAY. END SUMMARY

1. GOCYPRUS AGRICULTURAL DELEGATION, LED BY AGMIN IOANNIDES, CONCLUDED CYPRUS/LIBYA AGRICULTURAL COOPERATION AGREEMENT IN TRIPOLI FEB 28. AGREEMENT PROVIDES FOR A) ESTABLISHMENT OF JOINT STATE ORGANIZATION FOR THE FINANCING AND CONSTRUCTION OF WATER DEVELOPMENT PROJECTS IN BOTH COUNTRIES; B) THE ESTABLISHMENT OF JOINT STATE ORGANIZATION FOR THE DEVELOPMENT OF CEREAL AND LEGUME CULTIVATION; AND C) GOCYPRUS PROVISION OF SHORT-TERM AGRICULTURAL EXPERTS FOR WORK IN LIBYA. PROGRAMS A AND B WILL INVOLVE FINANCING UNDER LIBYAN GOVT LOANS.

2. GOCYPRUS COMMERCE AND INDUSTRY MINISTER COLOCASSIDES DEPARTED FOR TRIPOLI AND CAIRO MARCH 5 IN SUPPORT OF GOCYPRUS PARTICIPATION IN TRADE FAIRS BOTH CITIES.

3. THERE HAVE ALSO BEEN TWO MAJOR RELATED PRIVATE SECTOR DEVELOPMENTS. KUWAIT FINANCIAL INTERESTS AND LONDON SHIPPING FIRM HAVE JOINED WITH CYPRUS ENGINEERING COMPANY (GENERAL ENGINEERING CO., LTD.) IN PROPOSAL FOR ESTABLISHMENT OF 200 MILLION DOLLAR, EIGHT MILLION TON, EXPORT-ORIENTED PETROLEUM REFINERY ON CYPRUS' NORTHERN COAST. PROJECT, WHICH ALSO REPORTEDLY INVOLVES CONSTRUCTION OF \$10 MILLION SEA-WATER DESALINATION PLANT, IS UNDER STUDY BY GOCYPRUS. CYPRUS COMMERCIAL VEHICLE ASSEMBLY PLANT (KMC LTD. OF KAISIS GROUP), WHICH ALREADY HAS GROWING MARKET IN LIBYA, IS NEGOTIATING JOINT VENTURE WITH LIBYAN GOVT WHICH WOULD PERMIT THEM TO FINANCE THE EXPANSION OF THEIR CYPRUS PLANT.

4. GOCYPRUS INTEREST IN THE EXPORT POTENTIAL OF THE LIBYAN, SAUDI ARABIAN AND PERSIAN GULF MARKETS PREDATES THE CURRENT INTERNATIONAL OIL CRISIS. GOCYPRUS' ATTEMPT TO OBTAIN LIBYAN CRUDE AND REFINED PRODUCTS AT CONCESSIONAL PRICES FAILED (SEE REFTEL). YET, THE LIBYAN MARKET OFFERS ATTRACTIVE POTENTIAL LIMITED OFFICIAL USE

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FOR INCREASED EXPORTS OF CYPRUS CLOTHING AND SHOES, AS WELL AS OTHER MANUFACTURED GOODS. CYPRUS' DOMESTIC EXPORTS TO LIBYA EXPANDED BY 19 PERCENT IN 1972 AND BY 18 PERCENT IN 1973, WHEN THEY TOTALED CYPRUS POUNDS 1.4 MILLION (CYPRUS POUND - \$2.70 APPROXIMATELY). CLOTHING AND FOOTWEAR ACCOUNT FOR ABOUT 60 PERCENT OF THESE EXPORTS. CYPRUS' RE-EXPORTS TO LIBYA ARE ALSO EXPANDING AND TOTALED SOME CYPRUS POUNDS 208,000 WORTH OF UNMILLED CORN, COMPOUND FODDER AND MACHINERY

IN 1973. CYPRUS' IMPORTS FROM LIBYA, THOUGH NEGLIGIBLE, INCREASED SHARPLY IN 1973 WITH THE IMPORT OF SOME CYPRUS POUNDS 106,000 WORTH OF LIQUID PETROLEUM GAS.

5. COMMENT: CYPRUS' LIBYAN INITIATIVE WAS LAUNCHED WITH MAKARIOS' NOV 1973 VISIT. WITH THE COLLAPSE OF CYPRUS' ATTEMPT TO OBTAIN CONCESSIONAL PETROLEUM SUPPLIES FROM LIBYA, THE ACHIEVEMENT OF A FAVORED TRADING POSITION SEEMS TO BE THE MAJOR IMPETUS BEHIND GOCYPRUS' WELL-ORCHESTRATED DEVELOPMENT OF FINANCIAL AND TECHNICAL COOPERATION WITH THE LIBYAN GOVT. THE AGRICULTURAL COOPERATION AGREEMENT, IF IMPLEMENTED, OFFERS THE POSSIBILITY OF FINANCING FUTURE WATER DEVELOPMENT PROJECTS IN CYPRUS, AN IMPORTANT FACTOR SINCE GOCYPRUS IS FINDING IT INCREASINGLY DIFFICULT TO GET THE LOANS THEY WANT FROM THE IBRD, THEIR TRADITIONAL SOURCE OF FINANCE FOR MAJOR INFRA-STRUCTURE PROJECTS. THE AGREEMENT TO PROVIDE CYPRIOT SHORT-TERM AGRICULTURAL EXPERTS FOR WORK IN LIBYA OFFERS A USEFUL OUTLET FOR CYPRUS' GROWING UNEMPLOYED SURPLUS OF FOREIGN-TRAINED AGRICULTURAL SPECIALISTS. IN THE PRIVATE SECTOR, THE NEW PETROLEUM REFINERY PROPOSAL SEEMS DUBIOUS, PARTICULARLY SINCE PETROLEUM EXPORTS TO THE EC ARE NOT ELIGIBLE FOR TARIFF CONCESSIONS UNDER THE CYPRUS-EC ASSOCIATION AGREEMENT. BUT THE COMMERCIAL VEHICLE ASSEMBLY JOINT VENTURE APPEARS TO OFFER SOUND POSSIBILITIES.

6. IN RECENT MONTHS, THE LIBYAN GOVT HAS SOUGHT A RADIO FACILITY IN CYPRUS AND THE SUSPENSION OF RELATIONS WITH ISRAEL AS A QUID PRO QUO FOR LIBYAN COOPERATION AND ASSISTANCE. BOTH THESE ISSUES SEEM TO HAVE BEEN DROPPED IN FAVOR OF THE MUTUALLY BENEFICIAL PROVISION OF TECHNICAL ASSISTANCE TO LIBYA IN RETURN FOR PROJECT FINANCING AND INCREASED EXPORTS. THIS, COMBINED WITH COMMERCIAL INITIATIVES IN OTHER ARAB STATES POINTS TO CONCERTED GOCYPRUS' EFFORTS TO LIMITED OFFICIAL USE

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MOLD CLOSER, PRAGMATIC RELATIONSHIPS WITH SELECTED ARAB STATES. GOCYPRUS UNDOUBTEDLY HOPES THAT THIS RELATIONSHIP WILL PAY POLITICAL DIVIDENDS IN TERMS OF ARAB SUPPORT FOR CYPRIOT INTERESTS IN UN AND OTHER INTERNATIONAL BODIES. LIBYANS MAY
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